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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday July 20, 1977

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## State Dept. review completed

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National Intelligence Daily Cable for Wednesday, July 20, 1977.

The NID Cable is for the purpose of informing senior US officials.

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CHINA: Peking Posters on Teng

25X1 [ ] Two posters appeared in Peking yesterday welcoming the "central decision" to restore Teng Hsiao-ping to all the positions in the Chinese party, government, and military that he held before his ouster in 1976. There has been no official announcement from Peking on such a decision, in contrast with the announcement last year of Teng's dismissal, and it is not clear that the posters have official approval. A public declaration of Teng's return would probably be greeted with a rash of posters throughout the city.

25X1 [ ] There are indications that party leaders are now meeting in Peking, and presumably Teng's status is high on the agenda. It is possible, as one poster claimed, that Teng has been "nominated" to return to his original positions.

25X1 [ ] On the other hand, the poster-writers may either be jumping the gun on what they expect the meeting to decide, or they may be trying to boost Teng's cause. As early as last January, poster-writers in Peking put up apparently unauthorized posters calling for Teng's return and for his appointment as premier.

25X1 [ ] It is possible that Teng will initially be restored to his original positions but that adjustments will be made during the course of the meetings.

25X1 [ ] The Peking press this month has defended Teng in all respects, omitting only the use of his name. This transparent support for Teng, and especially a statement in *People's Daily* four days ago that he held his positions because of a decision by Mao, stops just short of publicly reinstating him to his former positions and may have prompted the posters. [ ]

## UK: Crucial Wage Policy Vote

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[ ] //Britain's Labor government will probably win a key vote today following a special parliamentary debate on its pay policy. With the House of Commons adjourning later this month, Prime Minister Callaghan will enjoy a four-month respite from the rigors of keeping a minority government afloat. But in the interim, the outcome of 17 major wage discussions will indicate whether the trade unions intend to make responsible wage demands and whether the government is determined to hold to its pay guidelines, which call for holding wage increases to an average of 10 percent. The results of this testing period, plus Callaghan's ability to deal with the miners' demand for a 90-percent pay boost in November, will determine the Labor government's chances of avoiding an early election.//

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[ ] //The government's Liberal Party allies are disappointed that no formal pay agreement was reached with the Trades Union Congress and probably doubt Labor's ability to stick to its unilaterally declared policy. Even so, the likelihood that the Liberals' already small parliamentary delegation would be decimated in a general election this summer will probably keep them from abandoning their pact with the government.//

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[ ] //Callaghan has also cultivated the support of other minor party members of Parliament. Ulster Unionist leader James Molyneaux recently declared that the days when the Unionist automatically supported the Conservative Party are gone. In fact, most Unionists are prepared to support the Labor government in a vote of confidence because of government concessions in the area of local autonomy and in boosting the number of Ulster's seats in Parliament.//

25X1

[ ] //Labor's plans to resubmit home rule legislation for Scotland and Wales in the next parliamentary session might lead some nationalist members of Parliament to abstain rather than vote against the government today. The nationalists could be damaged politically if Callaghan is forced into an early election that results in a victory for an anti-devolution Tory government.//

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25X1 [ ] //Chancellor of the Exchequer Healey's pay policy received a small boost yesterday when the economic committee of the Trades Union Congress reaffirmed its position that pay settlements should be concluded only every 12 months. The committee's position, however, flies in the face of decisions by powerful unions, such as the miners', to seek pay increases before their current one-year settlements expire.//

25X1 [ ] //The actions of the Trades Union Congress' annual conference in September will determine the government's ability to enforce a one-year period between wage increases. There appears to be a better than even chance that the federation will vote to support this all-important rule. [ ]

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#### SPAIN: EC Membership Application

25X1 [ ] //Spain may apply for full membership in the European Community next week. Such a bid would enjoy wide domestic support. Last month's parliamentary election went a long way toward satisfying EC members that Spain has forsworn Francoism, but attaining membership is bound to be protracted and difficult.//

25X1 [ ] //Foreign Minister Oreja told the US ambassador this week that he plans to recommend that the cabinet approve submission of an early application. If, as he believes likely, the cabinet approves his proposal, he will travel to Brussels next Wednesday to make the formal submission.//

25X1 [ ] //Earlier this month Spain notified the EC that it would extend its 1970 preferential tariff agreement with the original six EC members to include the three newer members. Under this agreement, the six EC members gave preferential tariff treatment to Spanish industrial exports in return for similar treatment by Spain to their industrial goods. Final negotiations for the expanded agreement are expected to be completed by the end of the month pending settlement on agricultural quotas for exports to the EC.//

25X1 [ ] //Spanish Prime Minister Suarez indicated some time ago that Madrid would push ahead with its application for full EC membership as soon as the parliamentary election had

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established Spain's democratic credentials. Since the election, frustration over growing EC concern about the possible costs of Spanish membership has resulted in some muted threats from Spanish officials to withhold application, but the government last week reaffirmed its intention to make a bid soon. If the application is not made this month, it will probably come in September.//

25X1

[ ] //Oreja, in any case, said he does not expect the EC Council of Ministers to agree to consider Spain's bid until September. He envisages negotiations beginning in mid-1978 and--while not minimizing the difficulties Spain would face--spoke optimistically of 1980 as a possible accession date. EC officials, however, expect accession to be delayed for at least several more years. Both sides envision a six- to seven-year transition period after entry during which Spain would adjust to EC requirements.//

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[ ] //EC members, France and Italy in particular, will want safeguards against Spanish agricultural competition, and some parts of the Community fear that Spain would be a dangerous competitor in such items as steel, shoes, and textiles.//

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[ ] //Spain's motives for wanting to join the EC are in large part political. To many Spaniards EC membership represents acceptance, after 40 years of isolation, in a modern, democratic Western Europe.//

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[ ] //The Spanish government's commitment to full EC membership seems firm, and in this it has the support of all major political groups including the Communists and Socialists. Opposition in Spain to EC membership comes mostly from xenophobic extremists on the left and right and from those businessmen afraid of more dynamic European industries.//

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[ ] //EC membership will mean severe problems for Spain's many inefficient producers who now are shielded by the country's high protective barriers. At the same time, however, it will allow some producers to lower costs by broadening their market. Given a sufficient transition period--possibly six years--Spanish firms should be able to adjust to the more competitive environment. [ ]

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## TURKEY: Coalition Government

25X1 [ ] Turkish Prime Minister - designate Demirel has apparently reached agreement with two small right-wing parties to reassemble the "nationalist front" government that held power prior to the country's recent parliamentary election. In a press statement yesterday, Demirel, leader of the Justice Party, implied that the coalition parties have apportioned ministerial portfolios and that only the relatively straightforward matter of matching names and positions remained to be addressed. He said he hoped to present a cabinet list to President Koruturk later today.

25X1 [ ] If events flow as smoothly as Demirel hopes, Turkey could have a government by the end of the month. Despite his dislike of National Salvation Party leader Erbakan, who will be part of the coalition, Koruturk would have little reason not to approve Demirel's cabinet because the three parties in the coalition control a majority of seats in the lower house. After receiving presidential approval, the government would then have a week to publish its program, and parliamentary debate and a vote of confidence would ensue.

25X1 [ ] The major sticking point during the two weeks of tough bargaining among Demirel, Erbakan, and Nationalist Action Party boss Turkes was Erbakan's demand that his party receive seven cabinet posts, reportedly including the education and interior ministries. Demirel doubtless took exception to this demand at least initially, for the National Salvation Party had the same number of posts in the first "front" government at a time when it controlled twice as many parliamentary votes.

25X1 [ ] When a cabinet list is published, it is likely to show that the Salvationists have largely gotten their way. Despite heavy election losses, Erbakan and his party still hold the balance of parliamentary power and the key to Demirel's becoming prime minister.

25X1 [ ] Turkey's closely divided electorate will not greet the announcement of a Demirel government enthusiastically. Many in Turkey have reservations about the country being governed again by a coalition that during more than two and a half years in power proved largely incapable of focusing on the country's many problems.



25X1 [ ] The leader of Turkey's largest labor confederation said last week that if the Demirel government won a vote of confidence he would lead a general strike until it fell. There are other indications that the left is already chafing at the prospect of several more years of rightist rule, and the Demirel government may face a difficult time. [ ]

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#### SUDAN: Negotiations Publicized

25X1 [ ] Sudanese President Numayri is apparently successfully concluding his effort to win over conservative opposition groups, especially the Ansar Islamic Sect and the Muslim Brotherhood. Reconciling these groups would largely neutralize Libyan and Ethiopian attempts to use exiled Sudanese dissidents to undermine the Numayri government.

25X1 [ ] In a nationwide address Monday evening, Numayri disclosed that he met with Sadiq al-Mahdi, exiled leader of the Ansar dissidents and a former prime minister, in Port Sudan on July 6. Although he gave no details of his contacts with Sadiq and other opposition leaders, Numayri said he had achieved "great success" and expressed hope that a general agreement on national unity will result.

25X1 [ ] Numayri released over 800 political detainees last weekend, presumably as a consequence of his negotiations with opposition leaders. According to press reports from Khartoum, those released included Muslim Brotherhood leader Hasan al-Turabi and some followers of Husayn al-Hindi, another prominent opposition leader who, like Sadiq, has received Libyan and Ethiopian support. [ ]

#### GHANA: Return to Civilian Rule

25X1 [ ] //Ghanaian leader Acheampong pledged on Monday to return Ghana to civilian rule within the next 12 months in an effort to get striking professional groups to return to work. The professional groups had rejected the government's plan, announced on July 13, to return to civilian rule after a two-year transition period and had continued the strike they began on July 1.//

25X1 [ ] Acheampong held fast to the two-year transition period in a meeting with strikers on Thursday. In addition, he froze the assets of professional groups and insisted that the strikers return to work as a precondition for further negotiations.

25X1 [ ] These actions hardened the resolve of professionals to continue their walkout. While some professional groups returned to work in Accra on Friday, lawyers, doctors, and pharmacists continued their strike. Medical services had become so inadequate that Acheampong appealed to the US, Britain, and Nigeria for doctors.

25X1 [ ] //The government's decision to move up the date for a return to civilian rule was made to buy itself time. Public reaction to the two-year transition proposal was not enthusiastic, and Acheampong was worried that if the strike continued into the fall, university students would join in the efforts to unseat the government.//

25X1 [ ] //With the commitment to a one-year transition, Acheampong will probably be able--at least temporarily--to deflect the mounting criticism of his leadership; by ensuring that the striking professionals will return to work, he may be able to reduce public resentment toward his regime.// [ ]

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#### PORTUGAL: Agrarian Reform Bill

25X1 [ ] *The Socialist minority government in Portugal faces hard bargaining this week to secure approval of key agrarian reform legislation. The Socialists are angling to obtain the support of the centrist Social Democrats, since the conservative Center Democrats and the Communists have already announced their opposition to the bill. Prime Minister Soares told the US ambassador in Lisbon that he is confident he has the backing of President Eanes and will survive any challenges to his government.*

25X1 [ ] The Socialist proposal is designed to hand back land illegally seized during the revolution by Communist-led groups, but not to sacrifice the principle of land reform. Under the

legislation, less land would be eligible for expropriation; owners whose land had been taken would be granted some compensation and would have a limited right to ownership in parts of their former holdings.

25X1 [ ] The Communists have the most to lose if the legislation is passed. In rallies throughout the country last weekend, they promised to fight to prevent enactment of the law or to force basic amendments. The Communists can make trouble for the Socialists in the streets, but probably do not have the means to thwart government plans.

25X1 [ ] The Center Democrats, the most conservative of the four major parties, oppose the bill because it recognizes some expropriations and does not return all of the seized land. The party announced last weekend that it would no longer cooperate with the government on a case-by-case basis, but would support Soares only if the Socialists accepted an overall political agreement. Center Democratic leaders are claiming that defeat on the agrarian reform measures could bring down the government.

25X1 [ ] The centrist Social Democrats are the Socialists' best hope for allies to assure passage. They appear to be bargaining for concessions from the Socialists on other issues. Most Social Democratic legislators probably agree with the Socialist approach to agrarian reform and believe the Communist influence needs to be diminished if the agricultural sector is to get back on its feet.

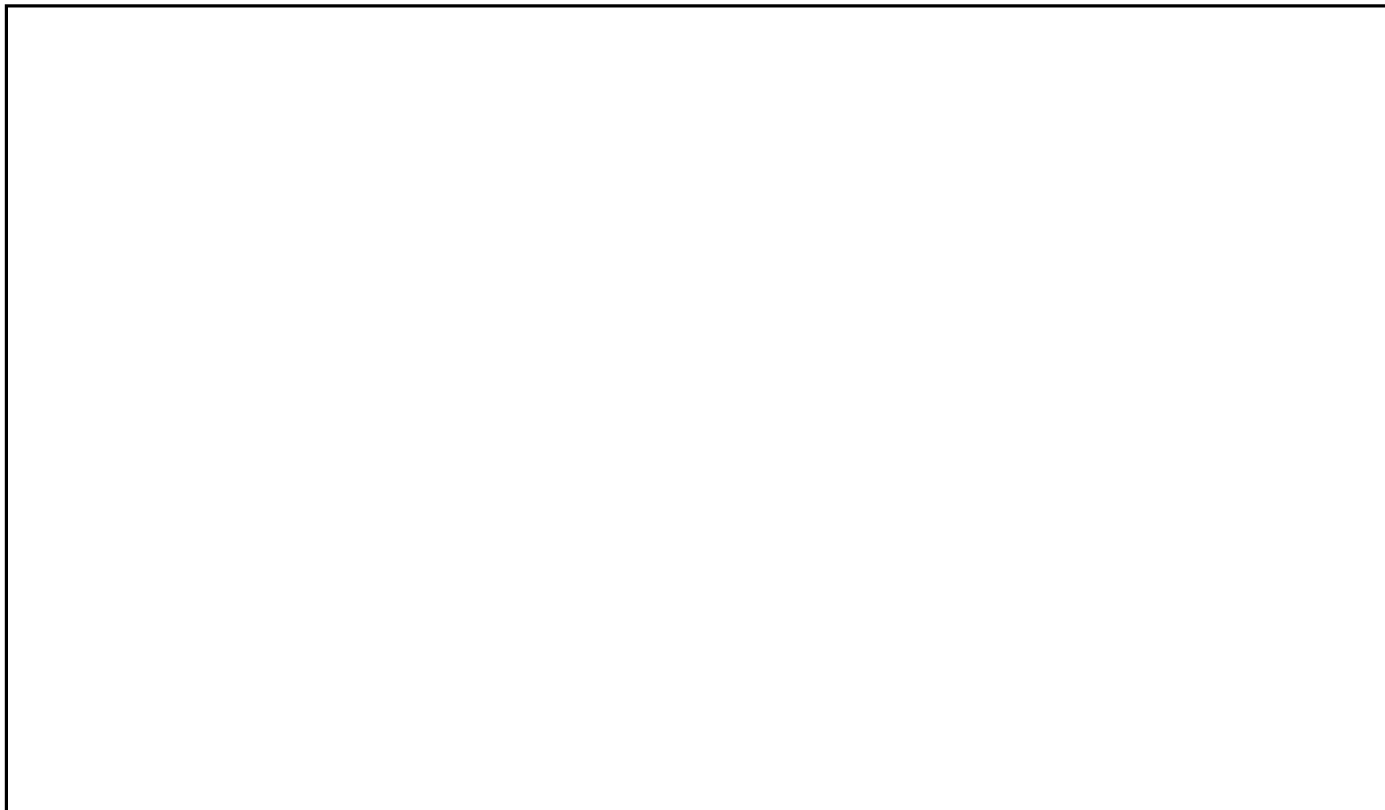
25X1 [ ] Soares realizes that Social Democratic leader Sa Carneiro could still change his party's stance. The Prime Minister is confident he will survive the vote, however, and has taken several actions to minimize the risks:

--The government postponed a vote on its mid-term economic program until the fall session of the legislature to avoid more problems with the Social Democrats and Center Democrats. The Socialists might have had to turn to the Communists for support on the program and thereby weaken their efforts on agrarian reform.

--The Socialist leaders are easing leftist dissidents out of the party in order to keep internal party problems from overshadowing the parliamentary battle. The Socialists reportedly plan to announce that the dissidents are not being expelled but have cut themselves off from the party.

--Some Socialists are saying that they are planning to reorganize the government in the fall and will probably include some independents.

25X1 [redacted] The biggest factor in Soares' favor continues to be the support of President Eanes, who has shown no sign of wanting a change in government. Eanes has been holding long meetings with the opposition leaders this week to discuss legislative issues. [redacted]



SRI LANKA: Election Preview

*Sri Lankan voters may continue their tradition of voting out incumbent governments when Prime Minister Bandaranaike's left-of-center Sri Lanka Freedom Party stands for re-election tomorrow. Neither domestic nor foreign policies are likely to change radically over the short term regardless of which of the two major parties forms the next government.*

Voter dissatisfaction with the country's 20-percent unemployment rate and 10- to 20-percent inflation rate could result in a victory for the major opposition party, the more conservative United National Party led by J. R. Jayewardene. The National Party governed from 1965 to 1970, when it was overwhelmingly defeated at the polls.

Leftists, angered by Bandaranaike's relatively moderate and often antilabor economic policies, will probably vote for the United Left Front, a coalition of leftist groups that allied with Bandaranaike in the 1970 election but then split from her. A leftist protest vote would siphon votes from government candidates and increase the National Party's chances of winning the 85 seats it needs in the 168-member Assembly to form a majority government.

Should the National Party win less than 85 but more than 65 seats, it should still be able to form a coalition with the 20 candidates certain to be elected as representatives of the island's major ethnic minority group--the Tamils. The Freedom Party would have more difficulty winning the support of Tamil representatives, but could possibly patch together another leftist coalition by making substantial concessions to the leftist parties.

Since its defeat in 1970, the United National Party has tried to shed its image as a fiscally conservative party of the wealthy for a more moderate image. While the party would be unlikely to return the industries and tea estates nationalized by Bandaranaike's government to private control, it would not permit further nationalizations.

25X1

[ ] The National Party's foreign policies might be more openly pro-West than those of the present government, which pursues a neutral policy. Jayewardene, however, would not command the respect that Bandaranaike has been accorded within the nonaligned movement. Sri Lanka's moderating voice in Third World forums--particularly the Nonaligned and Law of the Sea conferences--could thus be muted.

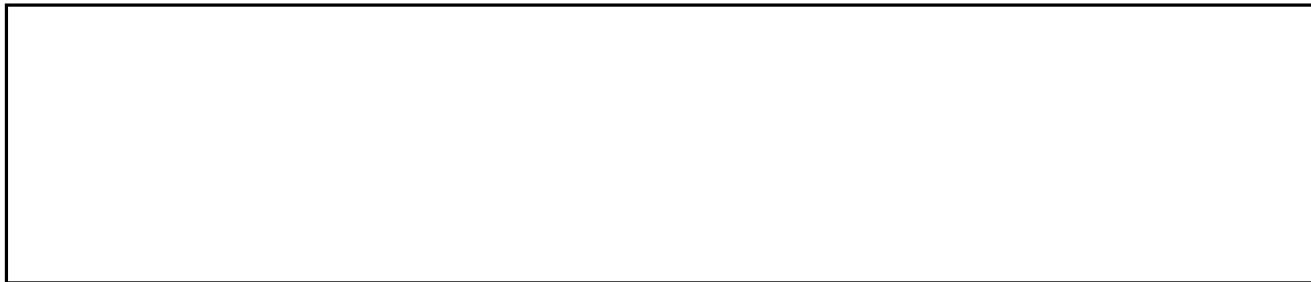
25X1

[ ] The party that wins tomorrow may have little influence on the long-term problem posed by the island's largely unemployed, locally educated, and increasingly disaffected youth. The coterie of older, Western-educated politicians and businessmen that has dominated Sri Lanka's established political parties and the economy for years has been unable to inspire or even control the youth, who see the economy as stagnant, society as decaying, and the leadership as lethargic.

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[ ] When Bandaranaike suspended the national assembly in February in order to avoid an embarrassing no confidence vote, the state of emergency that had been in effect since an insurrection of young Sri Lankan radicals erupted in 1971 automatically lapsed. Most of the former insurgents have since been released from jail and are busily reorganizing their supporters. The principal insurgent organization, the People's Liberation Front, is running candidates for 15 assembly seats.

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## BRIEFS

Spain:

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[ ] King Juan Carlos of Spain yesterday issued a royal decree directing a three-month freeze on prices of goods and services. Prices may only be increased to cover rises in pro-

duction costs. The decree probably is a sop to labor, which has criticized the government's recent 20-percent devaluation of the peseta as inflationary.

25X1 [ ] The price control measure lacks stiff guidelines and will be difficult to enforce. The government has yet to announce details of its economic program dealing with inflation, including statements on wage policy, credit expansion, and money supply. 25X1 [ ]

The Bahamas:

Prime Minister Lynden Pindling and his Progressive Liberal Party appear headed for a substantial victory in yesterday's parliamentary election, the first since The Bahamas gained independence four years ago. With more than 60 percent of the votes counted, Pindling's party was on the way to retaining 29 seats--and could win more--in the 38-member House of Assembly. 25X1 [ ]

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